

### 23rd July 2024: Stocks chop with eyes on earnings

- **SNAPSHOT:** Equities mixed, Treasuries steepen, Crude down, Dollar up
- **REAR VIEW:** Harris receives enough support for Democratic Presidential nomination; US Existing Home Sales and Richmond Fed drop; Very strong US 2-yr auction; Disappointing UPS earnings report; NXPI poor Q3 outlook; GM earnings disappoint; LVMH earnings hit by soft-China; CBRT holds rates for the fourth consecutive meeting.
- **COMING UP: Data:** Australian, Japanese, EZ, UK, US PMIs, German GfK Consumer Sentiment, US Advance Goods Trade Balance. **Events:** BoC Policy Announcement & MPR. **Speakers:** ECB's de Guindos, Lane; Fed's Bowman; BoC's Macklem & Rogers. **Supply:** Japan, UK, Germany, US. **Earnings:** AT&T, CME, Thermo Fisher, Ford, IBM, Newmont, ServiceNow, General Dynamics.

### MARKET WRAP

Stocks were ultimately mixed on Tuesday with NDX underperforming and seeing marginal losses after NXPI earnings disappointed, which weighed on semis. SPX and DJI sold off, with a lot of the weakness observed into the closing bell ahead of key earnings after hours (GOOGL, TSLA, V), while RUT saw notable outperformance, but also off highs into the close. Sectors were mixed, with Materials, Financials, and Consumer Discretionary outperforming, while Energy, Utilities, and Consumer Staples lagged. Energy was the clear laggard with the energy space continuing to be hit by sliding crude prices on China demand fears. The macro highlights largely centered around earnings, although on the election, VP Harris is off to a strong start to her Presidential Campaign, with the latest national Reuters/IPSOS poll putting her marginally ahead of GOP Presidential Nominee Trump. The unwind of the Trump trade saw T-Notes bid across the curve with the short-end outperforming, also supported by strong 2yr auctions out of Germany and the US. As mentioned, NXPI earnings disappointed, while UPS shares were slammed after a weak quarter and guidance. GM and CMCSA disappointed, while GE shares performed well post-earnings. In FX, the Dollar was bid but DXY failed to convincingly rise above 104.50 with JPY outperforming while the Antipodes continued to lag on aforementioned China woes.

### GLOBAL

**EXISTING HOME SALES:** US Existing Home sales fell 5.4% M/M to 3.89mln from 4.11mln, deeper than the expected decline to 4.00mln. The median home price for existing homes rose 4.1% Y/Y to USD 426.9k, while the inventory of homes for sale rose to 4.1mths worth from 3.7mths previously. Oxford Economics highlighted that "Record-high home prices and high mortgage rates weighed on existing home sales in June, which declined more than expected". However, looking ahead OxEco notes that the more recent decline in mortgage rates, which the desk expects to gain steam as the Fed cuts rates later in the year, will support a modest rebound in home sales later in 2024. Looking into the report, "All four major US regions posted sales declines. Y/Y, sales waned in the Northeast, Midwest, and South but were unchanged in the West". The NAR Chief Economist noted "We're seeing a slow shift from a seller's market to a buyer's market,"... adding that "Homes are sitting on the market a bit longer, and sellers are receiving fewer offers. More buyers are insisting on home inspections and appraisals, and inventory is definitively rising on a national basis."

**RICHMOND FED:** Richmond Fed decreased to -17 in July from -10, with all three of its component indices declining. Shipments to -21 (prev. -19), with new orders and employment at -23 (prev. -16) and -5 (prev. -2), respectively. Elsewhere, firms grew less optimistic about local business conditions, as the index fell to -21 from -13, with the future index inching lower to 7 from 9. Looking ahead, the future indices for shipments and new orders remained solidly in positive territory, suggesting that firms continued to expect improvements in these areas over the next six months. The vendor lead time index rose marginally into positive territory, for only the second time in two years. In addition, firms continued to report declining backlogs, remaining in negative territory. The inflationary gauges of prices paid and received fell in July, with firms expecting little change in price growth over the next 12 months.

**BOC PREVIEW:** The BoC rate decision, MPR and Governor Macklem's opening statement will be released at 14:45 BST / 09:45 EDT on Wednesday 24th July 2024. There will then be a press conference with Governor Macklem and Senior Deputy Governor Rogers at 15:30 BST / 10:30 EDT; Macklem will read his opening remarks, and then there will be a Q&A. Rates are expected to be cut by 25bps, taking its policy rate to 4.50%, the second consecutive 25bp cut from the BoC. However, this is not a certainty with some analysts, 8/30 surveyed by Reuters, looking for a hold. The remaining 22 analysts look for a cut, while money markets currently price in a 25bp cut with a 92% implied probability. The statement, MPR and press conference will be used to gauge appetite from the BoC for rate cuts throughout the year-end, money markets are fully pricing in at least two rate cuts this year (including July), with a c. 50% probability of a third, which would take rates to 4.00%. The Reuters survey saw a slim majority, 16/30, forecast two more rate cuts after July, taking its policy rate to 4.00% by year-end. However, 10 surveyed expect rates to end the year at 4.25%, while four expect rates to end 2024 at 3.75%. Recent data has been on the soft side with the unemployment rate rising and inflation falling within the BoC's target range, which bolstered calls for a cut at this meeting. Macklem has not spoken since recent key data points, therefore his views on data developments will be of note. [To download the full report, please click here.](#)

### FIXED INCOME

#### T-NOTE FUTURES (U4) SETTLE 5 TICKS HIGHER AT 110-28

**T-Notes bull steepened with Harris off to a strong start in her Presidential campaign while soft existing home sales and a strong 2yr auction supported the moves.** At settlement, 2s -4.0bps at 4.483%, 3s -3.5bps at 4.263%, 5s -2.7bps at 4.152%, 7s -2.3bps at 4.179%, 10s -1.7bps at 4.243%, 20s -1.0bps at 4.569%, 30s -0.2bps at 4.476%.

**INFLATION BREAKEVENS:** 5yr BEI -1.2bps at 2.182%, 10yr BEI -1.4bps at 2.278%, 30yr BEI -1.6bps at 2.280%.

**THE DAY:** T-Notes bull steepened throughout the European and US session which was led by the front-end. In Europe, a strong German 2yr auction supported the move while the bid was also backed up by a strong start to VP Harris' Presidential Campaign. The upside stalled amid some large issuance being announced with United Health (UNH) announcing an 8-parter and Occidental (OXY) announcing a 5-parter. However, soft existing home sales data reignited the bid in T-Notes before meandering ahead of the US 2yr auction. The auction was ultimately very strong (summary below), which took T-Notes to session highs before paring to pre-announcement levels and selling off into

settlement, although the front-end remained bid, keeping the curve steeper.

**2YR:** Overall, an incredibly strong 2yr auction. The high yield of 4.434% stopped through the when issued by 2.3bps, the second largest stop-through on record, and a solid improvement vs the prior month's auction coming in on the screws, with the six auction average being a tail of 0.2bps. The Bid-to-Cover was also strong at 2.81x, above the prior 2.75x and average of 2.58x. The strong demand was led by indirect bidders, which took the highest ever take down of 76.57%, well above the prior and average. Direct demand however saw a step back to 14.4% from the prior and average of 21%, but the super strong indirect demand was enough to see dealers take just 9.01% of the auction, down from the 13.5% prior and average of 14.7%

**THIS WEEK'S SUPPLY:** US to sell USD 70bln in 5yr notes on July 24th and USD 44bln in 7yr notes on July 25th; all to settle July 31st. Is to also sell USD 30bln in 2yr FRN's on July 24th; to settle on July 31st.

#### STIRS:

- **Market Implied Fed Rate Cut Pricing: September 25bps (prev. 24bps D/D), November 40bps (prev. 38bps), December 62bps (prev. 60bps).**
- US NY Fed RRP op demand at USD 390bln (prev. 396bln) across 64 counterparties (prev. 77).
- US sold USD 70bln of 42-day CMBs at 5.270%, covered 2.76x.
- US to sell USD 90bln in 4wk bills and USD 85bln in 8wk bills on July 25th; to settle July 30th; to sell USD 60bln of 17-week bills on July 24th, to settle July 30th.
- SOFR at 5.33% (prev. 5.34%), volumes at USD 2.120tln (prev. 1.992tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 84bln (prev. 79bln).

## CRUDE

**CRUDE WRAP: WTI (U4) SETTLED USD 1.44 LOWER AT 76.96/BBL; BRENT (U4) SETTLED USD 1.39 LOWER AT 81.01/BBL**

**The crude complex again saw downside, as China's demand woes continued.** Overnight, WTI and Brent held steady, though, as the European session was underway, prices started their descent, with losses extending throughout the US session; WTI and Brent troughed at USD 76.40/bbl and 80.51/bbl, respectively. The crude complex saw a slight rebound later on as Europe wrapped up for the day, ahead of Private Inventory data after the close. Fresh catalysts in the space were light, with participants continuing to attribute the weakness in the space to sluggish China demand (lower-than-expected GDP and Retail Sales), and an underwhelming Third Plenum last week. It is worth noting Russian Deputy PM Novak said Russia is close to reaching oil output quotas within OPEC+. In the geopolitical space, Lebanese media suggested Yemeni Houthis are expanding their target scope to the Mediterranean Sea. Elsewhere, a US official reported that President Biden is expected to meet with Israeli PM Netanyahu on Thursday at the White House. Regarding the private inventory data after hours, current expectations are (bbls): Crude -1.6mln, Distillate +0.2mln, Gasoline -0.4mln.

## EQUITIES

**CLOSES:** SPX -0.2% at 5,556, NDX -0.4% at 19,754, DJIA -0.1% at 40,358, RUT +1% at 2,243

**SECTORS:** Energy -1.55%, Utilities -0.65%, Consumer Staples -0.32%, Communication Services -0.22%, Industrials -0.21%, Real Estate -0.17%, Technology -0.13%, Health flat, Consumer Discretionary flat, Financials flat, Materials +0.38%.

**EUROPEAN CLOSES:** DAX: +0.77% at 18,548, FTSE 100: -0.38% at 8,167, CAC 40: -0.31% at 7,599, Euro Stoxx 50: +0.40% at 4,917, AEX: -0.22% at 915, IBEX 35: +0.62% at 11,213, FTSE MIB: flat at 34,638, SMI: -0.14% at 12,284, PSI: flat at 6,854.

#### EARNINGS

- **Coca-Cola (KO)** - Adj. EPS and revenue were above forecasts, alongside raising FY organic revenue guidance.
- **UPS (UPS)** - Missed on the top and bottom line with the midpoint of FY24 revenue view short of expectations.
- **Danaher (DHR)** - Beat on top and bottom line.
- **GE Aerospace (GE)** - Surpassed consensus on EPS, higher FCF than expected and raised FY EPS view.
- **Lockheed Martin (LMT)** - Top and bottom line came in higher than expected, and raised FY guidance.
- **Comcast (CMCSA)** - Q2 revenue beneath expectations, and Peacock paid subscribers came in short
- **Phillip Morris International (PM)** - Adj. EPS beat, and raised its FY guidance.
- **NXP Semiconductor (NXPI)** - Weak FCF in Q2 and gave a weaker-than-expected Q3 outlook.
- **Spotify (SPOT)** - Reported EPS above expectations, as was gross margin and operating income.
- **LVMH (LVMUY)** - H1 revenue came in light, with Q2 metrics also disappointing and weighed on by China demand.

#### STOCK SPECIFICS

- **Alphabet (GOOG)** - Wiz has walked away from the USD 23bln acquisition deal with Google. Bloomberg reported that advanced talks failed due to a faulty software update from CrowdStrike (CRWD).
- **Warner Bros Discovery (WBD)** - Matched Amazon's bid for NBA TV rights, using a clause in its expiring contract, Bloomberg reports.
- **Advanced Micro Devices (AMD)** - President Victor Peng will retire on August 30th.
- **Snap (SNAP)** - Upgraded at Morgan Stanley.
- **Apple (AAPL)** - Developing a foldable phone for release as early as 2026, according to The Information.
- **Wells Fargo (WFC)** - Raised its quarterly dividend by 14% to USD 0.40/shr (prev. USD 0.35/shr).
- **Southwest Airlines (LUV)** - US FAA is launching an audit of LUV after close calls, according to WSJ.
- **Meta (META)** - Released its largest version of its Llama 3 AI model; Meta AI also available on Ray-Ban Meta smart glasses; starting to roll out next month on Meta quest in the US and Canada in experimental mode.

## US FX WRAP

**The Dollar Index** was slightly firmer on Tuesday and hit a peak of 104.530, as losses against the Yen were offset by gains elsewhere. However, and as was the case on Monday, newsflow was once again sparse ahead of the key risk events later in the week in the form of US GDP Advance and PCE. For the record, existing home sales declined more than expected while Richmond Fed largely disappointed.

**JPY** was the clear G10 outperformer with USD/JPY hitting a low of 155.59, with support seen at the 18th of July low of 155.36 and the 100DMA at 155.32, although a move below 155 is the next big test for the pair. Nonetheless, participants await Tokyo CPI on Friday ahead of the BoJ next week.

**Antipodeans** were the G10 underperformers as they are once again weighed on by concerns over sluggish China demand and disappointing data out of the country. AUD/USD and NZD/USD hit troughs of 0.5951 and 0.6612, respectively, and current sit around those levels ahead of Australian PMI data overnight.

**CAD, CHF, GBP, and EUR** all saw losses vs. the Greenback, albeit not to the same extent of the Antipodes, ahead of European Flash PMIs and BoC on Wednesday. On the latter, the broad consensus is for the central bank to cut by 25bps, but some do expect a hold. Accompanying the rate decision will be the MPR, Macklem's opening statement, which will later be followed by Macklem and Rogers' press conference. In terms of Tuesday, ECB's de Guindos said data-wise, September is a much more convenient month for taking decisions than July was, and EU flash consumer confidence for July was marginally better than expected.

**EMFX** largely saw weakness, with **TRY** the outperformer and noticing gains after the CBRT rate decision, whereby they maintained its weekly repo rate at 50%, as expected, and reiterated that it remains highly attentive to inflation risks. Elsewhere, **Yuan** was flat with **ZAR, BRL, MXN, and CLP** all lower with the latter weighed on by falling copper prices. Looking to Wednesday, South African (Jun) and Mexican (Jul) inflation metrics are the highlights.

For **CEE** countries, the **NBH** cut the base rate by 25bps, as expected, to 6.75% with Deputy Governor Virag noting market expectations for 1-2 additional rate cuts this year are realistic and upcoming decisions will be about no change or a small rate reduction. Lastly, for the **CZK**, central banker Frait cannot rule out 50bps cut next week, and said he will decide between a 25 or 50bps cut.

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